

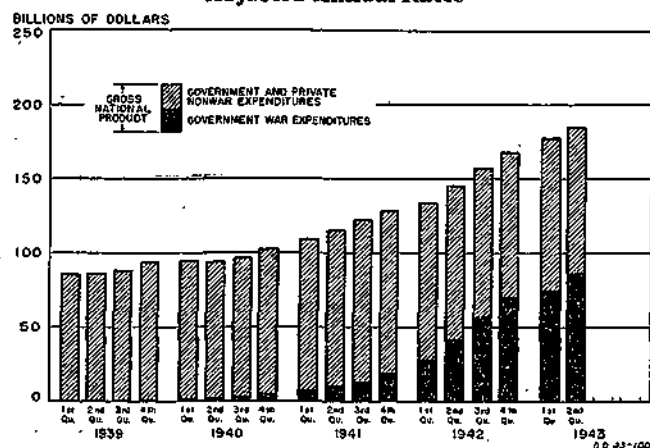
# National Product and Income in the First Half of 1943

By George Jaszi, National Income Unit, Bureau of Foreign and Domestic Commerce

**Editor's Note.**—National Income and National Product in 1942 were discussed by Milton Gilbert and George Jaszi in the Survey of Current Business, March 1943 issue. Detailed notes to the statistical tables can also be found in that article.

**T**HE major trends which were manifest in the American economy during 1942 continued in the first half of 1943. Gross national product, the aggregate value of currently produced goods and services flowing to government, to consumers, and—for purposes of gross capital formation—to business, expanded further under the impetus of growing war expenditures.

Chart 1.—Utilization of Gross National Product, Seasonally Adjusted Annual Rates



Source: U. S. Department of Commerce.

Private capital formation was again reduced, allowing further diversion of capital goods and the resources producing them to the war sector. Increasing incomes generated by expanding war production continued to result in buoyant consumer expenditures, which were partly fed by further heavy drains on business inventories. New records were established in the level of individual savings.

While on the surface the economic picture appeared similar to that of 1942, it was evident that a new stage in the development of the war economy was being reached. This was brought about by the fact that, owing mainly to shortages of manpower and other resources, industry was approaching a ceiling on total output. Even without correction for price rise, the rate of growth of gross national product slackened in the first half of 1943. Likewise there occurred a leveling off in the trend of war expenditures, whose rapid upward movement had been the most dynamic

element in the economic situation in 1942. High consumer expenditures reflected partly a rise in prices, which masked to an increasing extent the effect of the more static character of productive activity on gross national product. Although not all pervasive in the past six months, this limitation on the expansion of total production must dominate any appraisal of the economic outlook.

## Gross National Product and Its Components.

As can be seen from chart 1, gross national product reached a new high in the second quarter of 1943, increasing from an annual rate of 169.1 billion dollars in the fourth quarter of 1942 to 184.9 billion. The pace, however, at which national product was growing had slackened from an annual rate of 11½ billions in the latter half of 1942 to less than 8 billions in the first half of 1943.

## War Expenditures.

The smaller expansion of national product was reflected in the leveling off of war expenditures. In the latter half of 1942 this component of gross national product showed quarterly increases of 3.9 and 3.4 billion dollars. The corresponding increase in the first quarter of 1943 was only 1.1 billions. It was 3 billions in the second quarter, but in interpreting this figure it should be noted that the larger increase was due mainly to exceptionally heavy war purchases of agricultural produce.

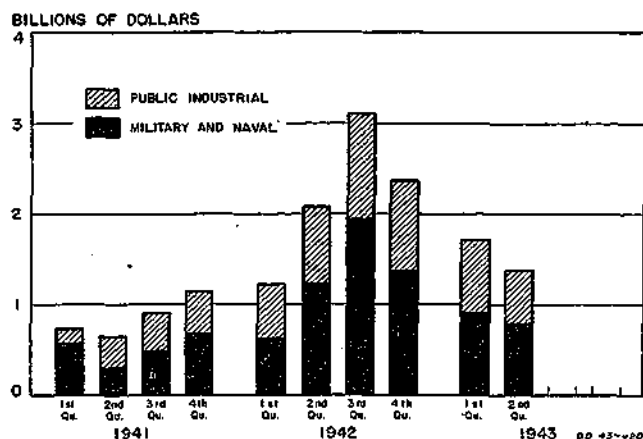
War expenditures continued to absorb an increasing proportion of gross national product, 47 percent in the second quarter of 1943, as compared with 42 percent in the fourth quarter of 1942. But the more static character of war production found reflection in this measure also, the above gain of 5 points comparing with a gain of 14 points between the second and fourth quarters of 1942.

Year and quarter	Gross national product	War expenditures	War expenditures as percent of gross national product
	Billions of dollars, seasonally adjusted annual rates		
1942:			
I.....	133.8	27.7	21
II.....	146.2	41.5	28
III.....	157.6	57.1	36
IV.....	169.1	70.9	42
1943:			
I.....	177.8	75.0	42
II.....	184.9	87.1	47

The main element in the leveling off of war expenditures was the decline in war construction both of industrial and of military facilities. As can be seen from

chart 2, military, naval, and public industrial construction in the continental United States reached its peak in the third quarter of 1942, and had fallen to less than one-half of that level by the second quarter of 1943. This sharp decline, which is proceeding according to schedule, is merely the result of the fact that the Nation will soon be fully equipped with the fixed facilities necessary for the production of munitions and for the actual conduct of military operations. Resources are being liberated from the preparatory task of building these facilities for the direct production of implements of war.

Chart 2.—Military and Naval and Public Industrial New Construction in Continental United States



Sources: War Production Board and U. S. Department of Commerce.

In addition to this decline in construction, the production of munitions has not continued to advance at the rate that characterized the latter half of 1942. This may be explained, first of all, by the fact that it is increasingly difficult to maintain given rates of growth as the absolute level of output approaches a ceiling. Secondly, there have occurred considerable shifts among the types of munitions called for by the production schedules. Such shifts must necessarily interfere with the smooth growth of munitions output.

#### Other Government Expenditures.

After declining sharply over a period of years Federal nonwar expenditures continued at about the levels of the corresponding period a year ago. (The erratic quarterly movement of these expenditures is due largely to the transactions of the Commodity Credit Corporation.) Interest payments on the public debt have become such an important portion of the total that their steady rise will probably more than offset such further fall as is still occurring in other nonwar expenditures of the Federal Government. Indications are that expenditures of State and local governments have declined further. But here, too, the main period of decline seems to be over. State and local government pay rolls are stable and no further appreciable drop is likely in State and local construction.

#### Private Gross Capital Formation.

Because war expenditures competed directly for many of the products that normally are bought by private business for purposes of gross capital formation, and because for technical reasons the resources engaged in the production of these goods could most easily be converted to the production of war goods, the restrictive influence of the war program on civilian output made its most marked imprint on private gross capital formation. Private construction and private purchases of durable equipment declined by about two-thirds from the last quarter of 1941 to the corresponding quarter of 1942. This trend continued into 1943. A slackening in the rate of decline was noticeable, however, and it can be assumed that the minimum of these two components of national product is being reached. Allowing for seasonal factors, private construction fell only moderately between the first and second quarters of 1943, and the decline in private purchases of durable equipment slackened both in absolute and in percentage terms.

The heavy drain on business inventories continued this year and sizeable drafts are being made on the foreign balance. Reduction of business inventories has now proceeded for a full year. It is serving as a powerful support of civilian consumption, which is proceeding at levels that considerably exceed current production of consumers' goods. Inventories have been reduced substantially and, as it is obvious that drafts on them cannot continue indefinitely at the present rate, civilians will feel increasingly the restrictions on current output available for their use.

The ratio of inventories to sales has declined sharply, not only because of the fall of stocks but also because of the increase in sales. The absolute volume of inventories, however, is still high and further substantial reductions are probable. While this will mean unusually low inventory-sales ratios, the physical shortage on the supply side and the effects of price control on the demand side are likely to make it impossible for business to maintain what it ordinarily considers adequate stocks.

#### Consumer Expenditures.

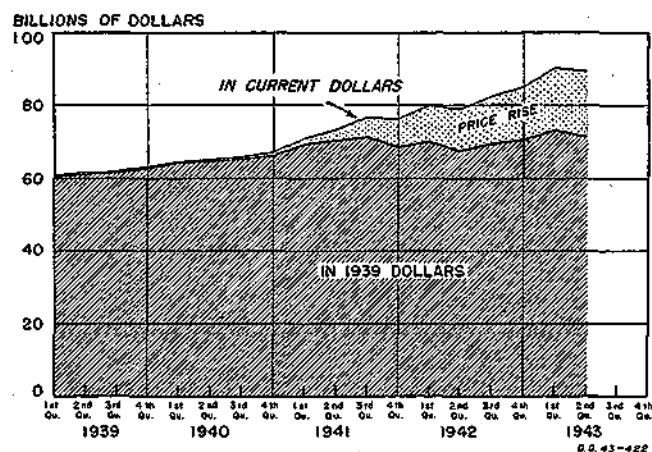
In the first quarter of the year consumer expenditures<sup>1</sup> continued the phenomenal advance which had been in evidence in 1942. Seasonally adjusted consumer expenditures were flowing at an annual rate of 90.2 billion dollars, or nearly 5 billion dollars above the all-time high in the previous quarter. The major part of the rise was due to a spurt in purchases of clothing which increased sharply on a seasonally adjusted basis. Other major categories of goods, with the exception of durable goods and gasoline, increased more moderately, and expenditures on services continued their steady advance. Consumer expenditures in the second quarter

<sup>1</sup> Consumer expenditures, as here defined, include expenditures of soldiers out of cash pay and allowances. They do not include goods and services furnished to them in kind.

receded only slightly from this high level. In the first half of 1943 they rose 12 percent over the corresponding period a year ago.

A correction of consumer expenditures for the rise of prices that is occurring does not alter this general impression of a high level of consumer purchases. As can be seen from chart 3, consumer expenditures, expressed in constant 1939 dollars, mounted from a level of around 60 billions in the beginning of 1939 to a plateau of 70 billions in 1941, around which they have fluctuated in 1942. In the current year they have exceeded this level. No decrease in real consumption during the war is revealed by the accepted techniques of statistical deflation.

Chart 3.—Consumer Expenditures for Goods and Services, Seasonally Adjusted Annual Rates



Source: U. S. Department of Commerce.

Attention is again drawn to certain difficulties in the measurement of real consumption. It is not possible in these measurements to take account of all quality changes or of the fact that some price quotations may not be representative. Nor is it possible to make statistical allowance for the loss of consumer satisfaction which results from the fact that, although the over-all volume of consumption is being maintained, the consumer's freedom of choice has been seriously restricted by the shortage of durable goods and more recently of an increasing range of other commodities.

While it is not possible to make quantitative allowance for these factors, comparisons with other warring countries can be made, where similar difficulties in measuring real consumption are present. In Great Britain, for instance, real consumption in 1942 had fallen about 20 percent below the level of 1938, the last year of peace. In the United States, real consumption in 1942 stood 13 percent above the level of 1939, the last year in which the American economy was unaffected by rearmament or war.

The divergent experience of the two countries was due to the fact that, with a larger volume of unemployed

resources at hand initially, the United States could fill the requirements of the rearmament program largely by industrial expansion. In Great Britain the scope for expansion was smaller, and diversion from civilian use had to be greater. In addition, in a country as greatly dependent upon imports as Great Britain, the consumer was severely affected by the acute shortage of shipping.

In the light of these comparisons the extent of curtailment which rearmament and war have forced upon the American consumer so far appears small indeed, and notions to the contrary seem to be based on unwarranted generalizations from regional shortages of particular commodities rather than on a sober evaluation of the over-all position.

The high level of consumer purchases has far-reaching implications with respect to the working of the war economy. As long as manpower shortages did not constitute one of the major economic bottlenecks, it was reasonable to argue that a high level of real consumption was no drag on the war effort. This argument was valid because equipment and material that was required by the war program and that was in excess of minimum civilian needs, had already been withdrawn from industries producing for civilian consumption. It is doubtful whether with a general manpower shortage the same view can still be taken of the high level of real consumption. The rising flow of money expenditures, on the other hand, constitutes a focal point of the threats to the smooth working of the domestic economy. It exerts a tremendous pressure on prices which is causing serious breaches in the price control and rationing programs, and is the root of a great part of the difficulties being encountered on the domestic front.

#### Changes in Distributive Shares.

National income, the sum of distributive shares accruing to factors of production, including the net savings of corporations, continued to expand rapidly, from an annual rate of 131.8 billion dollars in the last quarter of 1942 to 146.1 billions in the second quarter of 1943. The pattern according to which this gain was distributed was similar to that of 1942, though some significant changes in relationships can be noted. Net incomes of farm proprietors and compensation of Government employees, including the pay of the armed forces, increased most markedly, each by about 20 percent from the last quarter of 1942 to the second quarter of 1943. Compensation of private employees increased by 9 percent over the same period. Preliminary data on corporate profits indicate a sizeable increase of net profits after taxes. Between 1941 and 1942 net profits were limited by an increase in tax rates. No such offset to rising business volume has been present in the past 6 months.

Table 1.—Gross National Product or Expenditure, Quarterly, 1941-1943: Seasonally Adjusted Annual Rates <sup>1</sup>

[Billions of dollars]

Line	Item	1941				1942				1943	
		I	II	III	IV	I	II	III	IV	I	II
1	Gross national product or expenditure.....	109.4	116.0	122.6	128.8	133.8	146.2	157.6	169.1	177.8	184.9
2	Government expenditures.....	20.9	23.4	26.2	32.1	39.9	55.5	69.0	82.5	87.9	98.7
3	Federal Government.....	13.1	15.6	18.3	24.2	32.2	48.0	61.7	75.4	81.1	89.9
4	War.....	7.6	10.0	13.6	18.8	27.7	41.5	57.1	70.9	75.0	87.1
5	Nonwar.....	5.5	5.6	4.7	5.4	4.4	6.5	4.6	4.6	6.0	2.8
6	State and local government.....	7.8	7.8	7.8	7.8	7.7	7.5	7.3	7.1	6.8	6.8
7	Output available for private use.....	88.4	92.6	90.5	96.7	93.9	90.7	88.6	86.6	89.8	88.1
8	Private gross capital formation.....	17.4	18.9	19.2	20.3	13.6	11.2	5.8	1.2	-4	-1.1
9	Construction.....	5.1	5.4	5.6	5.5	4.3	3.2	2.3	2.0	1.0	1.5
10	Producers' durable equipment.....	9.1	9.6	8.1	9.0	7.1	5.9	4.3	3.1	2.6	2.0
11	Net change in business inventories.....	2.2	3.1	3.8	4.9	1.5	1.3	-1.5	-3.7	-3.9	-3.4
12	Net exports of goods and services.....	1.0	.7	1.2	.9	.6	.6	.5	-.1	-.6	-1.1
13	Net exports and monetary use of gold and silver.....	(?)	.1	.5	.1	.2	.1	.1	(?)	-.1	(?)
14	Consumers' goods and services.....	71.0	73.7	77.3	76.4	80.3	79.5	82.8	85.4	90.2	89.2
15	Durable goods.....	8.1	9.7	9.5	8.1	7.1	5.0	6.3	6.4	6.5	6.3
16	Nondurable goods.....	37.0	38.9	42.3	42.1	45.5	46.1	48.6	50.7	55.0	53.9
17	Services.....	24.8	25.2	25.5	26.2	26.7	27.5	27.9	28.3	28.7	29.1

<sup>1</sup> Detail will not necessarily add to totals because of rounding.

\* Less than \$50,000,000.

Table 2.—National Income by Distributive Shares, Quarterly, 1941-43: Seasonally Adjusted Annual Rates <sup>1</sup>

[Billions of dollars]

Line	Item	1941				1942				1943	
		I	II	III	IV	I	II	III	IV	I	II
1	Total national income.....	85.2	98.1	99.5	104.6	103.9	115.7	122.8	131.8	140.1	146.1
2	Total compensation of employees.....	57.4	62.5	67.2	71.1	75.0	80.5	86.2	93.0	99.1	108.2
3	Salaries and wages.....	53.6	58.7	63.6	67.5	71.4	77.0	83.0	89.7	95.8	100.0
4	Supplements.....	3.7	3.8	3.6	3.6	3.5	3.4	3.2	3.3	3.3	3.2
5	Net income of proprietors.....	13.4	15.0	16.3	17.2	15.5	18.5	20.3	22.0	23.4	24.6
6	Agricultural.....	5.0	6.0	6.3	7.2	8.4	9.2	9.9	11.3	12.6	13.6
7	Nonagricultural.....	8.5	9.0	9.5	10.0	10.1	10.3	10.4	10.7	10.8	11.0
8	Interest and net rents.....	7.6	7.9	8.0	8.1	8.2	8.3	8.5	8.9	9.1	9.5
9	Net corporate profits.....	6.7	7.7	8.0	8.2	7.1	7.4	7.8	8.1	8.5	8.7

<sup>1</sup> Detail will not necessarily add to totals because of rounding.Table 3.—Disposition of Income Payments, Quarterly, 1941-43: Seasonally Adjusted Annual Rates <sup>1</sup>

[Billions of dollars]

Line	Item	1941				1942				1943	
		I	II	III	IV	I	II	III	IV	I	II
1	Income payments to individuals.....	82.8	89.7	95.8	100.4	105.6	111.6	118.1	126.7	134.7	140.5
2	Less: Personal taxes and nontax payments.....	4.0	4.0	4.0	4.0	6.6	6.6	6.6	6.6	14.6	14.7
3	Federal.....	2.0	2.0	2.0	2.0	4.7	4.7	4.7	4.7	12.7	12.8
4	State and local.....	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
5	Equals: Disposable income of individuals.....	78.9	85.7	91.8	96.4	99.0	104.9	111.5	120.0	120.1	125.8
6	Less: Consumer expenditures.....	71.0	73.7	77.3	76.4	80.3	79.5	82.8	85.4	90.2	89.2
7	Equals: Net savings of individuals.....	7.8	12.1	14.6	20.1	18.6	25.4	28.7	34.7	29.9	36.6

<sup>1</sup> Detail will not necessarily add to totals because of rounding.Table 4.—Relation of Gross National Product to National Income, 1939-43 <sup>1</sup>

[Billions of dollars]

Line	Item	1939	1940	1941					1942					1943	
				I	II	III	IV	Total	I	II	III	IV	Total	I	II
1	National income.....	70.8	77.8	20.8	23.0	24.7	27.1	95.6	26.2	28.4	30.9	34.3	119.8	34.0	35.9
2	Business tax and nontax liabilities.....	10.4	12.4	4.0	4.5	4.8	5.0	18.3	5.5	5.9	6.2	6.4	24.0	6.3	6.8
3	Depreciation and depletion charges.....	6.2	6.4	1.7	1.7	1.8	1.8	6.9	1.9	1.9	2.0	2.0	7.8	2.0	2.0
4	Other business reserves.....	.8	.9	.2	.2	.2	.3	1.0	.2	.3	.3	.3	1.0	.2	.2
5	Capital outlays charged to current expense.....	.7	.9	.3	.4	.4	.4	1.5	.3	.4	.4	.4	1.5	.4	.4
6	Inventory revaluation adjustment.....	-.4	-.4	-.5	-.7	-.9	-1.1	-3.2	-.8	-.6	-.2	-.5	-2.1	-.3	-.3
7	Adjustment for discrepancies.....	0	-.9	-.5	.2	-.8	.3	-.8	-1.0	.5	-.6	.8	-.3	.5	1.4
8	Gross national product or expenditure.....	88.6	97.0	26.0	29.3	30.2	33.7	119.2	32.4	36.7	39.0	43.6	151.7	43.1	46.4

<sup>1</sup> Detail will not necessarily add to totals because of rounding.

Table 5.—Gross National Product or Expenditure, 1939-43<sup>1</sup>

[Billions of dollars]

Line	Item	1939	1940	1941					1942					1943	
				I	II	III	IV	Total	I	II	III	IV	Total	I	II
1	Gross national product or expenditure.....	88.6	97.0	26.0	29.8	30.2	33.7	119.2	32.4	26.7	39.0	43.6	151.7	43.1	46.4
2	Government expenditures for goods and services.....	16.0	16.7	5.3	6.0	6.3	8.1	25.7	10.0	14.0	17.0	20.7	61.7	22.0	24.3
3	Federal Government.....	7.9	8.8	3.3	3.0	4.6	6.1	17.8	8.0	12.0	15.4	18.9	54.3	20.3	22.5
4	War.....	1.4	2.7	1.9	2.6	3.4	4.7	12.5	6.9	10.4	14.3	17.7	49.3	18.8	21.8
5	Nonwar.....	6.5	6.1	1.4	1.4	1.2	1.3	5.3	1.1	1.6	1.2	1.1	5.0	1.5	0.7
6	State and local government.....	8.1	7.9	2.0	2.1	1.7	2.1	7.8	2.0	2.0	1.6	1.8	7.4	1.8	1.8
7	Output available for private use.....	72.6	80.4	20.7	23.3	23.9	25.6	93.5	22.3	22.7	22.0	22.9	89.9	21.1	22.1
8	Private gross capital formation.....	10.9	14.7	4.1	4.7	5.0	5.1	19.0	3.5	2.9	1.6	-1.0	8.0	1.1	-1.1
9	Construction.....	3.0	4.3	1.0	1.4	1.6	1.4	6.4	0.9	0.9	0.7	0.5	2.9	0.3	0.4
10	Residential.....	2.0	2.4	0.5	0.7	0.9	0.7	2.9	0.5	0.5	0.3	0.2	1.5	0.1	0.2
11	Other.....	1.6	2.0	0.5	0.6	0.7	0.7	2.5	0.4	0.4	0.4	0.3	1.5	0.2	0.2
12	Producers' durable equipment.....	6.5	6.9	2.3	2.4	2.0	2.3	8.9	1.8	1.5	1.1	0.8	5.1	0.6	0.6
13	Net change in business inventories.....	0.0	1.8	0.0	0.8	1.0	1.2	3.5	0.0	0.4	-0.3	-1.4	-0.6	-0.7	-0.7
14	Net exports of goods and services.....	0.8	1.4	0.2	0.2	0.3	0.2	0.9	0.1	0.1	0.1	(?)	0.4	-0.1	-0.3
15	Net exports and monetary use of gold and silver.....	0.2	0.3	(?)	(?)	0.1	(?)	0.2	0.1	(?)	(?)	(?)	0.1	(?)	(?)
16	Consumers' goods and services.....	61.7	65.7	16.6	18.6	18.9	20.5	74.6	18.8	19.3	20.3	23.1	82.0	21.0	22.3
17	Durable goods.....	6.4	7.4	1.9	2.6	2.2	2.3	9.1	1.4	1.6	1.5	2.0	6.4	1.3	1.6
18	Non-durable goods.....	32.6	34.4	8.5	9.7	10.3	11.6	40.1	10.7	11.4	11.9	14.0	48.0	12.5	13.4
19	Services.....	22.7	23.9	6.2	6.3	6.4	6.5	25.4	6.7	6.9	6.9	7.1	27.6	7.2	7.3

<sup>1</sup> Detail will not necessarily add to totals because of rounding.<sup>2</sup> Less than \$50,000,000.Table 6.—National Income by Distributive Shares, 1939-43<sup>1</sup>

[Billions of dollars]

Line	Item	1939	1940	1941					1942					1943	
				I	II	III	IV	Total	I	II	III	IV	Total	I	II
1	Total national income.....	79.8	77.8	20.8	23.0	24.7	27.1	95.6	26.2	23.4	30.9	34.3	119.8	34.0	35.9
2	Total compensation of employees.....	48.1	52.4	14.3	15.7	16.0	18.0	64.6	18.3	20.0	21.6	23.7	83.7	24.6	25.9
3	Salaries and wages.....	44.2	48.7	13.3	14.7	15.7	17.1	60.9	17.4	19.1	20.8	22.9	80.3	23.8	25.1
4	Supplements.....	3.8	3.7	1.0	1.0	0.9	0.9	3.7	0.9	0.9	0.8	0.8	3.4	0.8	0.8
5	Net income of proprietors.....	11.2	12.2	3.2	3.4	4.2	4.7	15.5	4.2	4.4	5.3	6.1	20.1	5.2	5.4
6	Agricultural.....	4.3	4.4	1.1	1.2	1.8	2.2	6.2	1.7	1.9	2.7	3.4	9.7	2.5	2.6
7	Nonagricultural.....	6.9	7.8	2.1	2.3	2.4	2.5	9.3	2.5	2.6	2.6	2.7	10.4	2.7	2.8
8	Interest and net rents.....	7.4	7.5	1.8	2.1	1.9	2.1	7.9	2.0	2.2	2.0	2.3	8.4	2.2	2.6
9	Net corporate profit.....	4.2	5.8	1.6	1.9	2.0	2.2	7.7	1.7	1.8	2.0	2.2	7.6	2.0	2.1
10	Dividends.....	3.8	4.0	0.9	1.0	1.0	1.6	4.4	0.9	0.9	0.9	1.2	4.0	0.8	0.9
11	Savings.....	0.4	1.8	0.6	0.9	1.1	0.7	3.3	0.8	0.9	1.0	0.9	3.6	1.2	1.2

<sup>1</sup> Detail will not necessarily add to totals because of rounding.Table 7.—Disposition of National Income, 1939-43<sup>1</sup>

[Billions of dollars]

Line	Item	1939	1940	1941					1942					1943	
				I	II	III	IV	Total	I	II	III	IV	Total	I	II
1	National income.....	79.8	77.8	20.8	23.0	24.7	27.1	95.6	26.2	23.4	30.9	34.3	119.8	34.0	35.9
2	Add: Transfer payments.....	2.4	2.6	0.7	0.6	0.6	0.6	2.5	0.7	0.6	0.6	0.6	2.6	0.7	0.8
3	Less: Corporate savings.....	0.4	1.8	0.6	0.9	1.1	0.7	3.3	0.8	0.9	1.0	0.9	3.6	1.2	1.2
4	Contributions to social insurance funds.....	2.0	2.1	0.6	0.6	0.7	0.7	2.6	0.8	0.8	0.8	0.9	3.3	0.9	1.0
5	Equals: Income payments to individuals.....	79.8	76.5	20.2	23.1	23.0	26.3	92.2	25.3	22.4	29.7	33.1	115.6	32.6	34.5
6	Less: Personal taxes and nontax payments.....	3.1	3.3	1.4	1.0	0.7	1.0	4.0	2.5	1.6	1.2	1.3	6.6	3.9	3.6
7	Federal.....	1.3	1.4	0.8	0.5	0.4	0.4	2.0	2.0	1.0	1.0	0.7	4.7	3.3	3.0
8	State and local.....	1.9	1.9	0.5	0.5	0.3	0.6	1.9	0.5	0.5	0.3	0.6	1.9	0.5	0.5
9	Equals: Disposable income of individuals.....	67.7	73.2	18.9	21.1	22.9	25.3	88.2	22.8	20.8	28.4	31.8	108.8	28.7	31.0
10	Less: Consumer expenditures.....	61.7	65.7	16.6	18.6	18.9	20.5	74.6	18.8	19.3	20.3	23.1	82.0	21.0	22.3
11	Equals: Net savings of individuals.....	6.0	7.5	2.3	2.5	4.0	4.8	13.7	4.0	6.0	8.1	8.7	26.9	7.7	8.7

<sup>1</sup> Detail will not necessarily add to totals because of rounding.

The growth of interest income reflected larger interest payments on the public debt. Net income of nonfarm proprietors increased less markedly.

#### Relation of Income Payments to Gross National Product.

Income payments to individuals—which differ from national income by excluding the savings of corporations and pay-roll taxes, and by including transfer payments such as relief, pensions, and allowances to soldiers' dependents—rose from an annual rate of 126.7 billion dollars in the last quarter of 1942 to 140.5 billions

in the second quarter of 1943. In spite of the buoyancy of incomes some traces of the less dynamic character of productive activity were discernible. Manufacturing wages and salaries, Federal Government pay rolls (including the pay of the armed forces) and net incomes of farm proprietors showed successively smaller increases in the first half of 1943, and pay rolls in the contract construction industry declined from their 1942 peak. These components of income payments have accounted for most of the increase in the total during the war period. The slackening in the expansion of total

income payments was, however, somewhat less pronounced than in gross national product. Whereas gross national product increased by 16 percent between the second and fourth quarters of 1942 and by only 9 percent between the latter period and the second quarter of 1943, the corresponding figures for income payments were 13 and 11 percent.

It is interesting to speculate why at the present time the more static character of production is somewhat more easily discernible in national product than in income payments. The sums of money paid out by the buyers of the national product do not all generate income payments to individuals. Part of them are absorbed by corporate savings and by business reserves, such as reserves for taxes, depreciation and depletion, bad debts, etc. For several reasons, the relative importance of these items is decreasing at present.

An increasing volume of payments is made directly to individuals in the armed forces. These payments result wholly in income payments without any previous cut being taken for corporate savings or reserves. The same holds true of the increasing share of income that is paid out to farmers. Furthermore, a growing proportion of industrial production takes place in plants owned by the Government. Payments with respect to this production also result wholly in income payments to individuals and do not generate business saving or reserves. Another type of payment that enters income payments but not national product are allowances to soldiers' dependents which are now being paid out in increasing amounts, and more than offset the decline in other transfer payments.

While the proportion of direct payments to individuals is thus increasing, there are indications that even with respect to the payments initially received by corporations, a larger proportion is paid out to individuals. Reserves for special amortization are leveling off as the construction of emergency facilities under the system of certificates of necessity is nearing completion. The same holds true of reserves for depletion as the output of the extractive industries is approaching its peak. The expectation that legislation will not be enacted in time to increase tax liabilities on 1943 business receipts or incomes is resulting in an increase in reserves for business taxes which is smaller than the one which has occurred in the past year.

#### Individual Savings.

In spite of the continued rise of income payments the phenomenal growth of individual savings—which include the savings of unincorporated business—was interrupted in the first quarter of 1943. On a seasonally adjusted basis these savings declined from an annual rate of nearly 35 billions in the fourth quarter of 1942 to 30 billions in the first quarter of 1943. This drop was due to an increase in personal taxes and high consumer expenditures. Payments of Federal income tax at sharply increased rates on 1942 incomes, and the Victory Tax on wages and salaries currently paid out

constituted the principal sources of the increase in taxes. It is significant that the effect of heavier tax payments is clearly reflected in a reduction of individual savings whereas it leaves no measurable imprint on consumer expenditures.

By the second quarter of the year the further growth of incomes had obliterated the effects of increased tax payments. Individual savings were being generated at an annual rate of nearly 37 billion dollars, or 2 billion in excess of the previous high level.

The more than doubling of gross national product since 1939, two-thirds of which has been due to an increase in physical volume rather than to a rise in prices, indicates that the economy has responded to the production requirements of the war program. In interpreting the significance of the surging level of savings, one should remember that these savings include windfalls that are the result of the price rise, and that they exceed the amount of voluntary saving which constitutes an offset against inflation at the current level of income. A large proportion of savings, moreover, continues to be made in highly liquid form, and will constitute a latent inflationary threat, unless it is absorbed by taxes or immobilized by other means.

**NOTE.**—In connection with the savings estimates for 1943 attention should be drawn to certain statistical difficulties in the estimation of Federal income tax payments. Until the current year quarterly unadjusted payments of Federal income tax were measured by quarterly collections. The adjusted quarterly series was derived by allocating total annual payments evenly among the quarters, as though these payments had been made in four equal quarterly installments.

In recent years, when both incomes and tax rates were rising, this treatment did not eliminate sharp increases in the personal tax series between the fourth and the first quarters. It was realized that for certain purposes, for instance, for a quarterly comparison of consumption, savings and disposable income, a further smoothing of the tax series might be desirable. This would involve allocating part of the increased tax burden of a given year to the last quarter of the previous year, on the ground that the spending and saving decisions of individuals were already influenced by the anticipation of heavier tax payments in the ensuing year. But such adjustment was not made in the published series, because it transcends the character of a seasonal adjustment and because it would have involved too large an element of arbitrary discretion.

In the current year further complications have arisen. Owing to the administrative difficulties in handling the large volume of tax returns a substantial part of quarterly payments are not reported as collections until the first month of the next quarter. It becomes necessary to estimate the spill-over and to allocate it to the previous quarter. Also, Victory tax has to be allocated to the quarter in which it is deducted from pay rolls rather than the quarter in which it appears in collections. A whole quarter of Victory tax deductions had to be estimated on the basis of information which is extremely scanty owing to the newness of the tax. Because of the change in the tax collection system that becomes effective in the second half of the year under the Current Tax Payment Act of 1943 the adjusted individual income tax series for the first two quarters of 1943 was calculated by averaging estimated payments in the two quarters and expressing them as annual rates. Indications are that seasonal factors in the first two quarters' Victory tax deductions are slight, and it was decided not to attempt a correction for these factors.